

Washington, DC -- The growing federal deficit is this week's example of "Why Washington is Broken". The Associated Press (AP) reported this week that the federal deficit for October totaled \$176.4 billion, "a record for October as the new budget year began where the old one ended: with the government awash in red ink."

The AP noted that, "Economists worry that if such deficits continue it could push up interest rates, further dragging on the fragile economic recovery."

"The deficit for the 2009 budget year, which ended on Sept. 30, set an all-time record in dollar terms of \$1.42 trillion. That was \$958 billion above the 2008 deficit, the previous record holder," wrote the AP.

"October was the 13th straight month to show a monthly deficit — another record. It was the fifth-largest monthly deficit ever."

Here is the full article:

Federal deficit sets October record of \$176.4B

By MARTIN CRUTSINGER and DANIEL WAGNER (AP) – 18 hours ago

WASHINGTON — The federal deficit hit a record for October as the new budget year began where the old one ended: with the government awash in red ink.

Economists worry that if such deficits continue it could push up interest rates, further dragging on the fragile economic recovery.

The Treasury Department said Thursday that the deficit for October totaled \$176.4 billion, even higher than the \$150 billion imbalance that economists expected.

The deficit for the 2009 budget year, which ended on Sept. 30, set an all-time record in dollar terms of \$1.42 trillion. That was \$958 billion above the 2008 deficit, the previous record holder.

October was the 13th straight month to show a monthly deficit — another record. It was the fifth-largest monthly deficit ever.

The imbalance came mostly from lower receipts of individual and corporate taxes. Receipts were \$135.3 billion, a 17.9 percent drop from last October.

Spending dipped 2.7 percent to \$311.7 billion. Last October's outlays were inflated by the \$33 billion spent on the first round of financial bailouts at the peak of the financial crisis.

The Obama administration expects this year's deficit to reach \$1.5 trillion. That would make it the third straight record annual deficit.

In relation to the overall economy, the 2009 deficit was 9.9 percent of the gross domestic product. That was the highest level since the World War II-era deficit hit 21.5 percent of GDP in 1945.

The devastating effects of the country's worst recession since the 1930s and the government's efforts to stabilize the financial system with a \$700 billion bank bailout fund and a \$787 billion economic stimulus program drove the 2009 deficit.

The administration projects the deficit will remain above \$1 trillion in 2011. In fact, according to the estimates it made in August, the deficit will never drop below \$739 billion over the next decade.

So far, the government has been able to borrow to finance the soaring deficits at low rates because the recession pushed interest rates down and the Federal Reserve has worked to keep them low in an effort to stimulate a rebound.

But the concern is that government borrowing at such levels will start to push interest rates higher as the economy begins to recover, making it more expensive for businesses and consumers to borrow the money they need. Another worry is that foreigners could become spooked by the size of all the deficits and cut back on their purchases of Treasury debt.

China, the largest foreign holder of U.S. Treasury securities, has expressed concerns about the size of the U.S. deficits, prompting administration officials to issue repeated pledges that it will start to tackle the deficits as soon as the recovery is on more sustained footing.

Treasury Secretary Timothy Geithner, on a visit to Tokyo on Wednesday, told reporters that "as growth recovers and strengthens, we're going to bring our fiscal positions back to a sustainable balance."

Republicans have attacked the administration for failing to put forward what they consider a credible plan to deal with the soaring deficits. That debate is expected to intensify in coming weeks as Congress is faced with the need to raise the government's debt limit, currently at \$12.1 trillion. The administration said last week it expects to hit the current limit in December.

Copyright © 2009 The Associated Press. All rights reserved.